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Weekly Summary

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the 25X1ents.

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Brezhnev's Absence Causing Unease (NOT SOURCED)

Soviet party leader Brezhnev's absence from public view has now stretched to almost seven weeks. His apparent inability to take part in the daily affairs of the party has probably resulted in some erosion of his personal authority and caused some unease within the party, but there has been no evidence of any challenge to his position.

Brezhnev last appeared in public on December 24, and since then he has made only two semi-public appearances. There has been no official explanation for his absence, and reports on the nature of Brezhnev's illness have been contradictory and highly speculative. Around mid-January, however, the emphasis in the rumors about Brezhnev began to shift from speculation about his health to his political well-being. Speculation in this direction fed on the setbacks to policies closely associated with Brezhnev: abrogation of the 1972 US-Soviet trade agreement, and the decision by the December plenum of the Central Committee to emphasize producer-goods industries over consumer-goods industries in the 1975 economic plan.

On January 8, an unusual Tass statement denied Western reports of political instability in the USSR and ridiculed those who publicize them. This has been followed by a concerted effort to keep Brezhnev's name before the public, with emphasis on his contribution to detente and on the importance of his role in past and future summit meetings. Recent speeches by Brezhnev's Politburo colleagues have also endorsed detente and have referred favorably to the General Secretary's personal role in the conduct of Soviet affairs.

Meanwhile, Soviet leaders have attempted to create an atmosphere of normality in Moscow. Last month, three members of the Politburo made previously scheduled trips abroad, and Prime Minister Kosygin apparently spent most of January on vacation in the Caucasus. This week, Foreign Minister Gromyko made a swing through the Middle East, and other political leaders also seem to be following a business-as-usual routine.

In spite of the atmosphere of normality, there have been some indications that Brezhnev's

*Zil limousine on Kutuzovsky Prospekt, January 30
AP speculates that Brezhnev could be the passenger*

NY-AP



continued absence from the helm is causing concern among the ranks, and that the first tentative steps at political maneuvering within the leadership may have begun. On January 21, *Pravda* published a long article noting that the strength of the leadership is its collectivity. The article is somewhat ambiguous, but it may have been intended to reassure the rank and file that no one is indispensable and that continuity of leadership is assured by the collective, even in the absence of one of its members. The author's favorable reference to long-range planning—which implies stability and continuity—tends to support this interpretation, as do references by other leaders to Moscow's determination to continue detente.

In Brezhnev's absence, leaders outside the charmed circle of the Kremlin have received varied treatment in the Soviet press. V. V. Shcherbitsky, Ukrainian party first secretary and a full member of the Politburo, appeared in *Pravda* last month in an unfavorable light. *Pravda* reported that it had received a letter from the Ukrainian leader acknowledging the correctness of earlier criticism of affairs in his republic. On the other hand, the newspaper carried an article

by G. V. Romanov, first secretary of the regional party organization in Leningrad and a candidate member of the Politburo, which touted his region's economic success in 1974. Shcherbitsky and Romanov have sometimes been listed among possible successors to Brezhnev, and *Pravda's* different treatment of the two men may be the first indication that there is maneuvering for position within the leadership.

Such maneuvering, never far beneath the surface, can be expected to increase in the coming months as preparations begin for the next party congress, which should be held early in 1976. The picture is complicated, however, by the length of Brezhnev's absence, by his recent political setbacks, and by the doubts that have been raised about his physical well-being. On previous occasions, Brezhnev has disappeared for several weeks and then reappeared without any apparent diminution of his authority, but if he hopes to regain the momentum he seems to have lost this time and to write the script for the next congress, he must reassert his political vigor fairly soon.

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PORTUGAL: Political Turbulence [1, 2, 5, 6]

Rumors of coups and cabinet reshuffles continue to circulate in Lisbon as virtually all of Portugal's main ruling bodies deliberate what has been described as "revolutionary" legislation. The outcome of these deliberations, and particularly the final form of the economic plan, should provide some insights into the relative strengths of leftists and moderates in Portugal.

The Armed Forces Movement's Superior Council met often in the past week to draft the ground rules for the election campaign—due to begin on March 4—and to discuss the economic plan. The council also is expected to define "pluralistic democracy" and the country's "antimonopolistic nature." The council's decisions will, in turn, be presented for approval to

the cabinet and to the Movement's 200-member General Assembly late this week. Press accounts of the assembly's agenda indicate that it will discuss the economic plan and the establishment of the Movement as a permanent institution as well as its role in the constituent assembly.

The draft economic plan has been the subject of bitter debate for many months. Leftists have argued for the nationalization of most private industry and for redistribution of the country's arable land. Moderates acknowledge that too much of the country's wealth is concentrated in too few hands, but have argued for gradual solutions that will avoid upsetting the nation's fragile economy.

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Anti-NATO demonstrators in Lisbon

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[redacted] the Movement's leftist-oriented Coordinating Committee has submitted a draft proposal to the Council of State outlining changes in the constitution. The proposal would vastly increase the powers of the original seven-man junta, giving it the authority to legislate, to outlaw organizations not in sympathy with the "progressive forces," and authority to punish "reactionary" elements. The leftists may hope that such an arrangement would allow them to circumvent and thus neutralize the power of moderates in the Superior Council and assembly. Presumably, they believe that the junta's smaller size would make it more manageable and easier to influence.

A report that the Soviets have asked for port facilities for their Atlantic fishing fleet has been

denied by the Portuguese Foreign Ministry and by Moscow. The Portuguese are seeking advice on the restructuring of their fishing industry, and it is possible this subject was explored with the Soviets. A Norwegian mission arrived in Lisbon on February 3 to study the problems of the Portuguese fishing industry.

A NATO naval exercise off the Portuguese coast, meanwhile, provided ultra-leftists with an excuse to demonstrate against what they billed as an act of political intimidation. The Communist-dominated press has reported the maneuvers in a sensational fashion, but moderate papers have been restrained in their comments. Separate statements explaining the exercises—25X1 issued by Minister Without Portfolio Alves and by the Armed Forces General Staff—put the issue in proper perspective. [redacted]

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VIETNAM: More Action Ahead

The week before Tet, the three-day Lunar New Year holiday beginning on February 11, witnessed a temporary lull in fighting, but most indications point to intensified action resuming again in the weeks ahead with heavy Communist attacks directed at several vulnerable areas throughout the country.

The principal area of concern focuses on Tay Ninh City. Communist propaganda has been warning residents of heavy attacks. There are also tentative indications that units from the Communists' 9th Division are shifting from their present positions in Binh Duong Province to spearhead the attacks. While these reports cannot be confirmed, the 9th is the only Communist unit in the region that has not seen combat recently and its units are believed fresh.

Several reports also indicate that Viet Cong sapper units are making preparations for terrorist actions in Saigon. Members of these units reportedly are currently stocking supplies and munitions, identifying targets, and improving access routes into and out of the capital. While the government has taken steps to contain such activity, it would be nearly impossible to prevent scattered attacks.

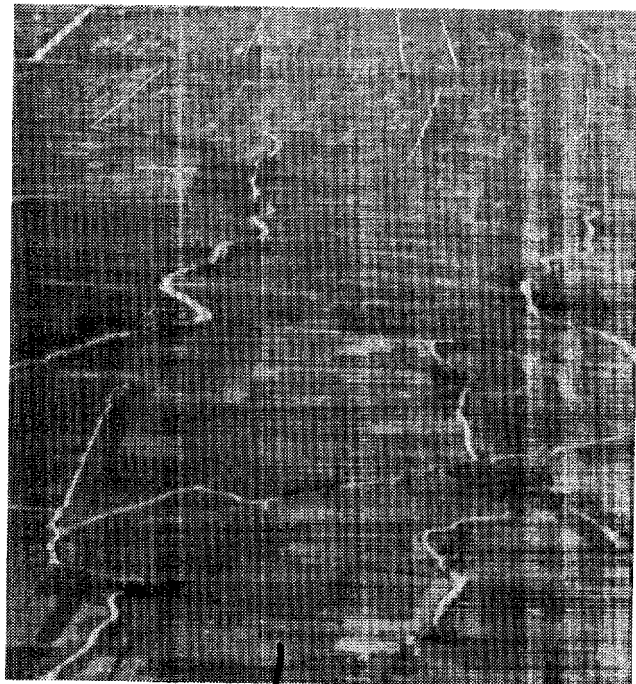
There also are indications that the Communists are preparing attacks against the Kien Tuong provincial capital of Moc Hoa. According to government sources, units from the Communists' 5th Division will lead the assaults, although these same sources have claimed that in recent days South Vietnamese forces have inflicted heavy casualties on the division's units. If these casualties have indeed been heavy, the 5th will probably not be used to attack a provincial capital that the South Vietnamese have indicated they will defend. The Communists are more apt to concentrate on expanding their base areas and infiltration routes and on harassing traffic on major roads and canals.

In the northern section of the country, government commanders are worried about poten-

tially heavy Communist assaults against provincial capitals in the central highlands near the Cambodian border. The recent deployment of the North Vietnamese 968th Division into the Kontum/Pleiku province area has heightened this concern, along with tentative indications that another division—the 320th—may be moving south to attack targets in Darlac and Quang Duc provinces. In Military Region 1, some intensified action is anticipated in Quang Nam and Quang Ngai provinces, but government commanders remain confident that if the Communists do not reinforce units in position, they can contain the attacks.

Weather conditions will pose no constraints. Good fighting weather will continue from the highland provinces to the southern delta until April or May. The heavy monsoon rains in the northern coastal areas will begin tapering off soon, and good weather will begin in March.

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Rice paddies and canals in the delta

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SECRET**GROMYKO'S MIDDLE EAST TRAVELS**

^[13, 14] Foreign Minister Gromyko appears to have made little progress in bridging the differences between the USSR and Egypt during his visit in Cairo this week. He avoided acrimonious exchanges with President Sadat that could have led to a further deterioration of relations, but the USSR and Egypt remain apart on key issues such as the Geneva conference and Soviet arms shipments.

Although the Soviets seem resigned to the possibility of a new Egyptian-Israeli disengagement agreement, Moscow is still seeking some commitment from the Egyptians that the Soviets will be accorded a significant negotiating role in the subsequent rounds of negotiations. Earlier in the week, in an attempt to put pressure on Cairo, Gromyko and the Syrians had called for a resumption of the Geneva talks within one month. The Egyptians, however, resisted this Soviet gambit and agreed only to a less specific formulation—the “immediate” resumption of the talks.

In the statement marking the end of the Cairo visit, the Egyptians conceded that Moscow should have a role in all aspects of the Middle East settlement. Sadat, nevertheless, made plain that he intended to continue to rely on Washington's step-by-step approach to negotiations. Immediately after meeting with Gromyko, Sadat publicly stated that he continued to welcome the visit of Secretary Kissinger.

Sadat noted that progress had been made on some bilateral issues, but added that others would have to wait until General Secretary Brezhnev visits Egypt. Gromyko clearly was unwilling to make any firm commitment regarding a future Brezhnev trip to Egypt; the joint statement on the Gromyko visit refers only to the importance of Brezhnev-Sadat exchanges. Sadat's public remarks suggest that Cairo is once again making an issue out of a Brezhnev visit.

One of the unresolved issues Sadat undoubtedly had in mind was his demand for new Soviet agreements on arms. Although Moscow has said it would deliver arms ordered prior to the October war—and apparently did deliver some MIG-23s on the eve of Gromyko's arrival—it has

refused to make new commitments. The issue of Egyptian payment of its arms debt also appears to remain unsettled.

Gromyko's stay in Damascus seemed mainly aimed at strengthening his hand for his subsequent discussions in Cairo. Although Gromyko reiterated the Soviet commitment to Syria's defense and signed some previously negotiated economic and scientific agreements, apparently no new aid was promised. While in Damascus, Gromyko met with fedayeen leader Yasir Arafat and in a banquet speech referred, for the first time, to a Palestinian “state.” At other times during his trip, however, Gromyko reverted to the usual vague Soviet formulations. This suggests that, at least for the present, Moscow is not initiating a major push on this issue.

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MALAGASY REPUBLIC: NEW LEADER*NOT SOURCED*

General Ramanantsoa, head of the Malagasy government since 1972, stepped down on February 5. He handed over full executive powers to Lt. Colonel Richard Ratsimandrava, head of the gendarmerie and former interior minister.

Ramanantsoa had dissolved his cabinet late last month to diminish mounting political tensions caused in part by a resurgence of differences between the coastal tribes and the Merina tribes of central Madagascar. Early in January, officers from the coastal tribes had unsuccessfully attempted a coup. In addition, the economic situation was getting worse, and personal rivalries within the government were growing more acute.

Ratsimandrava, though a Merina, has good relations with the coastal tribes that dominated the government until Ramanantsoa came to power. These tribes have been given greater representation in the new cabinet. The new government's relations with the US are not expected to undergo any fundamental change. Ratsimandrava has said publicly that he will continue Ramanantsoa's nonaligned policies.

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ETHIOPIA: FIGHTING IN ERITREA

[18-24]

⌈ Serious fighting between government forces and insurgents broke out again in Eritrea Province last weekend after a lull of many months. Neither side is likely to score a decisive victory in the near future, and the resumed fighting could last for months if not years.

In the fighting this week, the army suffered serious setbacks, forcing the ruling military council in Addis Ababa to send reinforcements. Government forces will probably be able to maintain control of the provincial capital, Asmara, but they are not capable of preventing continued insurgent infiltration and terrorist attacks. The rebels probably have the capacity for increased activity, especially now that their two rival factions are apparently cooperating against the government. Their next targets may be the Red Sea ports of Massawa and Assab.

A rebel attack on Ethiopian troops and installations in Asmara started the hostilities. The attack was evidently designed to pre-empt a resumption of operations by the army. Two days earlier, the council had announced it was ready to use force against the rebels.

The army overreacted and went on a shooting spree, firing indiscriminately at civilians and buildings. Casualties reportedly ran into the hundreds. Troops conducted a house-to-house search for arms and rebels, detaining many Eritreans, and also engaged in considerable looting. Most of the firing in the city ended by February 3, although sporadic shooting continued. Asmara's electricity and water systems were disabled; by the end of the week, the water shortage was becoming critical, and food supplies were running low.

On February 1, the army began attacking rebel concentrations in the environs of Asmara. Air force planes made numerous sorties and bombed some villages. Most of the heavy fighting took place north of the city. The army suffered heavy casualties attempting to dislodge the rebels, who have spent the past several months establishing strong positions around Asmara. An

armored column with an estimated 600 reinforcements, which had left Addis Ababa before the fighting began, was stalled by an ambush about 20 miles southwest of Asmara.

The army has airlifted as many as 1,500 troops into Asmara, however, bringing the total strength of regulars in the province to about 11,000—about one third of the army. Most of the reinforcements came from the Addis Ababa area, but some were also brought in from other northern provinces. Fighter aircraft were sent from the main air base near Addis Ababa.

Serious deficiencies in the Ethiopian army have been pointed up by the new fighting. Leadership reportedly is poor, and units have had difficulty coordinating their activities. Troop discipline has been a problem, too. The army chief of staff apparently has arrived in Asmara to make a personal effort to remedy these deficiencies.

For the provisional military government, the Eritrean conflict has become an acid test of leadership. A serious defeat in the field would almost certainly trigger a military revolt against the present rulers. In addition, the transfer of a large number of troops from Addis Ababa might encourage some opponents of the council to attempt a coup regardless of how the fighting goes.

Despite the dangers inherent in the Eritrean situation, the council is pushing ahead with its plans to impose a socialist regime on Ethiopia. A policy statement issued on February 3 announced the nationalization of 72 businesses and the acquisition of a controlling interest in 29 others. The edict affects textile, metal, and other enterprises. The declaration condemns the middle class as the principal prop of the old regime and glorifies the workers, peasants, soldiers, and intelligentsia as spearheading the Ethiopian revolution. While inviting foreign participation in the economy, the declaration accuses foreign investors of exploiting Ethiopia in the past and states the government's intention to maintain strict control over their activities in the future.

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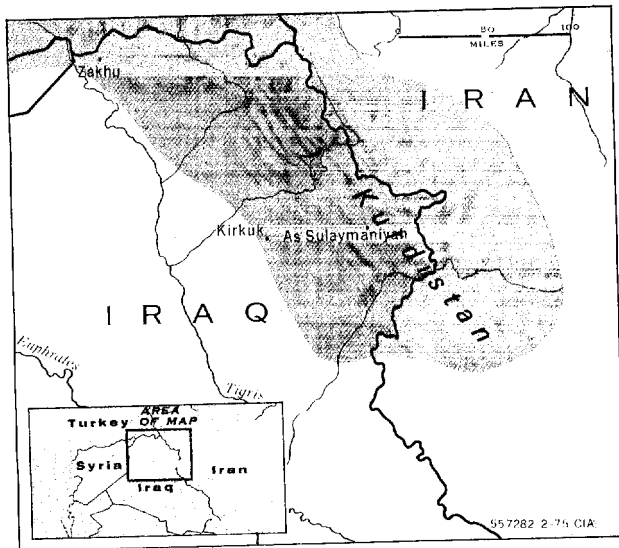
IRAQ: NO KURDISH COUNTER-OFFENSIVE

[25, 27]

Kurdish forces apparently will not launch a major winter counter-offensive to retake ground lost to government troops last summer and fall, as they have done in past Iraqi-Kurdish wars. This time, both sides seem content to stay in their present positions and wait for spring.

Iranian officials along the border say the Kurds have failed to move because they lack heavy arms and because relatively mild weather has permitted a fairly high level of Iraqi air activity. The Kurds are also facing a larger, better equipped force than in previous campaigns. The Kurds nevertheless believe they can hold their remaining territory with the arms they now have, according to the Iranians. Kurdish leader Barzani's forces have been pushed into a narrow strip of mountainous territory along the border with Iran. The Iranians report that rebel morale is good and that Barzani retains the loyalty of most Kurds, despite the military reverses in the summer and fall.

The rebels apparently continue to pin their hopes on forcing a change in Baghdad's Kurdish policy, or perhaps even a change in regime, by



inflicting an unacceptable level of casualties through shellings, brief attacks on Iraqi forward positions, and guerrilla actions in rear areas. The Kurds also occupy good defensive positions and dislodging them would be costly. Baghdad seems intent on winning a military victory, however, and appears ready to resume its offensive in the spring. Kurdish military inactivity this winter will make the role of Iran even more crucial in the coming months.

The flow of refugees, like the fighting, has slowed considerably. Local officials expect it to resume when the weather improves. Some refugees from northwestern Kurdistan were caught on the Iraqi side of the border by the onset of winter weather. There are now an estimated 137,000 Kurdish refugees in camps in northwestern Iran.

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MOZAMBIQUE: FIVE MONTHS TO GO

[28, 29]

Prime Minister Chissano and other leaders of the four-month-old transitional government are projecting an image of calm purposefulness as the territory moves toward independence, scheduled for June 25. The future, however, is clouded with political and economic uncertainties.

The Front for the Liberation of Mozambique—the nationalist group that dominates the transitional government—has been trying to broaden its political base in the territory. Front officials are giving high priority to political mobilization, and party functionaries are fanning out over the countryside preaching “Unity, Work, and Vigilance” and pushing literacy and health campaigns. These efforts apparently have won the Front some new backers, although many people may support the organization only because it is the sole legal political party.

In recent weeks, the government has devoted much of its time to economic matters. A Portuguese delegation arrived on January 19 to discuss economic issues, including the establishment of a central bank and the future development of the Cabora Bassa hydroelectric project. The UN also is sending an economic survey team to the territory, but specialists in Lisbon and Lourenco Marques are reportedly encountering difficulties in collecting reliable statistics for potential donors of aid.

Meanwhile, signs of economic decline are becoming visible throughout the territory, according to the US consul general. Food staples are in short supply, transportation facilities are congested, and industries are unable to obtain spare parts and raw materials. Unemployment and labor unrest are widespread in the major urban centers. In rural areas, farmers are cutting back on planting, and many white-owned farms and rural stores are being abandoned.

Chissano's public statements have been marked by pragmatism and moderation, and the

government has urged everyone to work for a strong, multiracial society. Nonetheless, there has been a significant exodus of whites—perhaps in excess of 20,000—since Portugal agreed last September to turn over political power to the Front. This exodus has seriously drained the territory of professional and technically skilled people as well as of needed white- and blue-collar workers.

The government hopes many whites will come back if the security situation remains calm and the economy picks up. Its efforts to encourage their return have not been helped, however, by vague allusions from officials to future economic and social changes and by statements from Front President Samora Machel that reflect a predilection for Marxism. Machel will probably become the first president of Mozambique when it gains independence.

Public order has not been seriously disturbed since a short-lived outbreak of violence last October that was sparked by a clash between Portuguese commandos and troops of the Front. Portuguese forces are being gradually withdrawn on schedule and will be gone by June. Meanwhile, Front and Portuguese troops are cooperating in enforcing strict security measures. Many blacks and whites have been detained on vague charges of “opposing the decolonization process.” For the most part, these charges are leveled at members of anti-Front political groups that emerged following the coup in Lisbon last year and are now defunct.

Racial tensions remain a potentially serious problem for the government, particularly in northern Mozambique where suspicions between the two races have always been strong. There, many whites have abandoned the towns and cities. Anti-white wall slogans are becoming common, and curfews are being imposed against whites in certain areas. In such an atmosphere, rumors or a minor incident could spark a serious racial clash.

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CAMBODIA: A TURN FOR THE WORSE

[30 - 33]

Government fortunes sagged this week as the Khmer Communists began mining the Mekong River. On February 3, mines destroyed three tugs in a convoy returning to South Vietnam and two days later, mines sank three more tugs in a small convoy attempting the run upriver. The remnants of the latest convoy turned back to South Vietnam. Civilian crews and shipowners may now refuse to risk the trip upriver, no matter what monetary incentives are offered. Cambodian navy personnel could man civilian vessels, but getting the permission of civilian owners for them to do so could be difficult.

Even if civilian owners turn their vessels over to the navy, the Cambodians will have trouble accumulating enough tugs and cargo vessels to move the necessary supplies upstream. Already, three tankers, two coastal steamers, six tugs, and a number of barges, junks, and navy craft have been lost. Most of the vessels that made it through have been heavily damaged. The region is being scoured for more cargo barges—which are less vulnerable to shellings than ships—but it may be impossible to round up enough to carry all of Phnom Penh's supply requirements.

US officials have informed the government that a major airlift of supplies into Phnom Penh is not a realistic alternative to the Mekong supply route, and military commanders can be expected to make a major effort to improve security along the river. Beachheads along the lower reaches of the river will probably be reinforced, and the navy will use what little mine-sweeping equipment it has to try to clear the shipping channel. A massive infusion of manpower could probably push the insurgents back from the river banks, but unless Communist pressure against Phnom Penh's outer defenses eases, such large numbers of troops will not be available.

The Khmer Communists have been on the attack in the Phnom Penh area for almost five weeks. The Cambodian army has done a creditable job in containing the insurgents in most sectors around the capital, but has been unable to gain the upper hand. Some army units—particu-

larly the 7th Division manning the city's northwestern defenses—are being chewed up. Government commanders are shoring up weak points with units from less active fronts. Reinforcements will begin to run short, however, if the Communists sustain their attacks.

From their footholds near the city, insurgent gunners have launched daily attacks against Phnom Penh proper and outlying facilities—including Pochentong airport. Nearly 500 rockets have hit in and around Phnom Penh since the beginning of the year, according to government figures. Given the volume of fire, damage has been relatively light, but the psychological impact is beginning to show. On February 5, the French embassy began advising members of the capital's sizable French community to be prepared to evacuate dependents. The departure of large numbers of French could precipitate an exodus of foreigners that would cause government morale to drop further.

The supply situation in Phnom Penh is still tolerable, but will not remain so for long. The three convoys in January delivered about a two weeks' supply of ammunition and rice. Ammunition stocks on January 31 were sufficient to sustain the current level of fighting for three weeks, and stocks are being supplemented by air deliveries. With rationing, enough rice is on hand to meet military and civilian needs for over five weeks.

Stocks of most fuels will last through the end of the month. Unless these stocks are replenished soon, the government will have to take drastic steps, such as closing rice-distribution centers and ordering sharp cutbacks in civilian fuel consumption. Civilian morale will sink as such measures are implemented. The government's options for conserving military supplies are more limited. If the situation deteriorates further, it may have to consider abandoning territory in the countryside in order to concentrate its resources on the defense of Phnom Penh and the Mekong.

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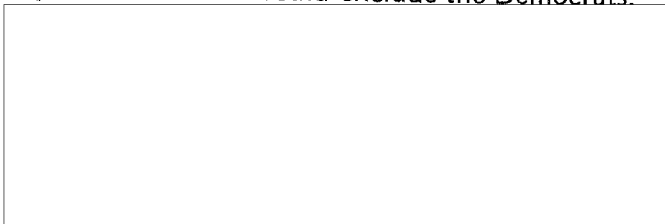
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THAILAND: SEARCH FOR A GOVERNMENT

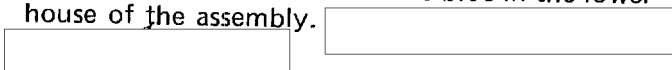
[34-36]

Thailand's newly elected National Assembly officially convened on February 5 amid continuing behind-the-scenes negotiations aimed at forming a coalition government. Although Democrat Party leader Seni Pramot was given assurances of support from the political right last week in his efforts to form a government, he ran into trouble over the distribution of cabinet portfolios. One of the key prospective members of Seni's coalition, the conservative Thai Nation Party, threatened to stay out of the government unless given the powerful Ministry of Interior, a demand that the Democrats are unwilling to accept. Seni received another setback on February 6 when the Democrat Party's candidate for speaker of the lower house lost out to Prasit Kanchanawat, the candidate of the political right.

Although the Democrats won the largest number of seats in the 269-man assembly—72—and may still be able to prevail upon parties of the political center and left to join in a coalition in an effort to keep the conservatives out of office, it seems clear that their chances of doing so have eroded. There is evidence that the rightists have begun maneuvering to put together a government that would exclude the Democrats.



Should the conservatives' maneuvers succeed, chances for political stability over the short run would significantly increase. Although a conservative coalition would be unpalatable to large segments of the press and intellectual community, it would enjoy the support of the military, a factor that is no less important today than when Thailand was governed by military rule. A Democrat-led coalition, lacking crucial conservative support, would be extremely vulnerable to challenges from the conservative bloc in the lower house of the assembly.



SOUTH KOREA: PAK'S REFERENDUM

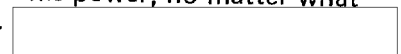
[37]

The government has taken careful measures over the past two weeks to ensure solid endorsement of "the major policies of President Pak" in the national referendum scheduled for February 12. Pak's reasons for seeking at least the appearance of voter approval at this time are apparently tactical. He hopes to:

- Put his domestic opponents on the defensive; they had been planning a major anti-government campaign this spring.
- Lay the public relations groundwork for new suppressive measures if an opposition campaign materializes.
- Demonstrate to audiences at home and abroad—particularly in the US—that his opposition, though vocal, has relatively little support nationally.



A basic defect of Pak's referendum process, of course, is that it will solve none of his political headaches. His opponents will continue to demand limitations on his power, no matter what the final vote tally.



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NORTH KOREA: TROUBLES WITH TRADE

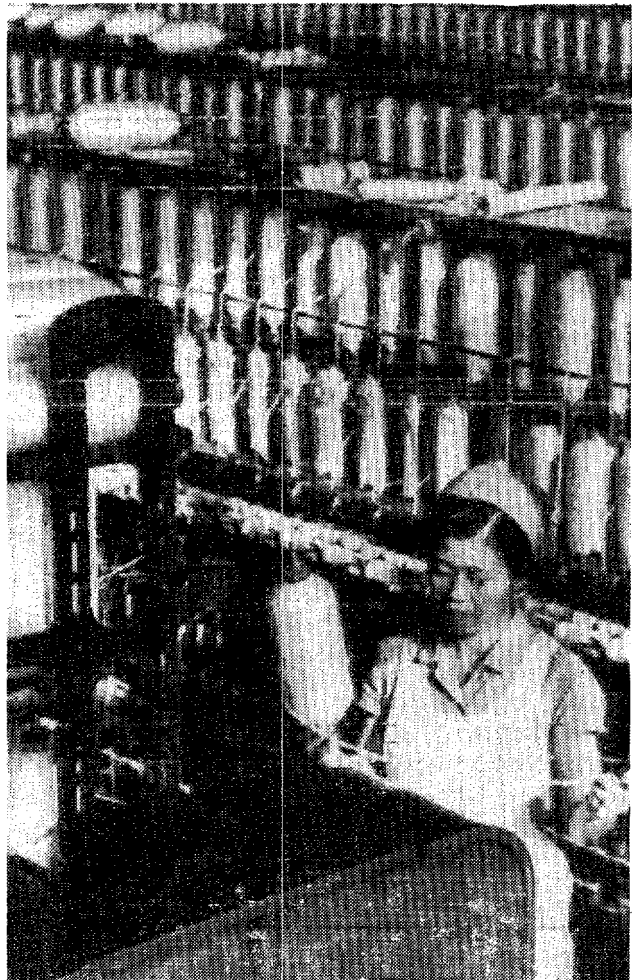
[38 - 43]
 [Pyongyang is having difficulties financing its trade with Western countries. These problems could reverse North Korea's recent economic tilt toward the West as well as seriously dampen prospects for Pyongyang's ambitious industrialization program.

North Korea's success in industrialization has been linked to its ability to acquire foreign industrial equipment and technology on credit. In the past, the availability of Soviet and Chinese loans fluctuated with the changing political climate, while the North's bellicose attitude toward South Korea during the 1950s and 1960s inhibited financial arrangements with the West.

In recent years, however, North Korea's persistent efforts to expand trade ties and its more flexible posture in a changing international environment have led to greater access to Western credit. Since early 1970, the North Koreans have signed contracts with firms in Japan and Western Europe for nearly \$600 million worth of industrial plants and related equipment, most of which is being financed by medium-term credits.

Credit financing for capital imports, as well as for record grain imports from France, Canada, and Argentina, permitted North Korea to run a 1973 trade deficit of almost \$170 million with non-Communist countries. A surge in equipment deliveries raised the deficit to at least \$300 million last year. In 1970 and 1971, this trade was roughly in balance.

In the past several months, reports of Pyongyang's payments problems have been increasing. By December, for example, North Korea was in arrears on a large number of letters of credit issued to Japanese and West European banks. In addition, in late 1974, reluctance by the French government to authorize further credits to North Korea was holding up the sale of French helicopters, and by the end of the year, North Korea was delinquent in the payment of \$40 million in outstanding loans from French banks. In January, therefore, several West European banks were reducing loans to North Korea because it is a poor credit risk, and the Japanese Export-Import Bank



North Korean textile mill

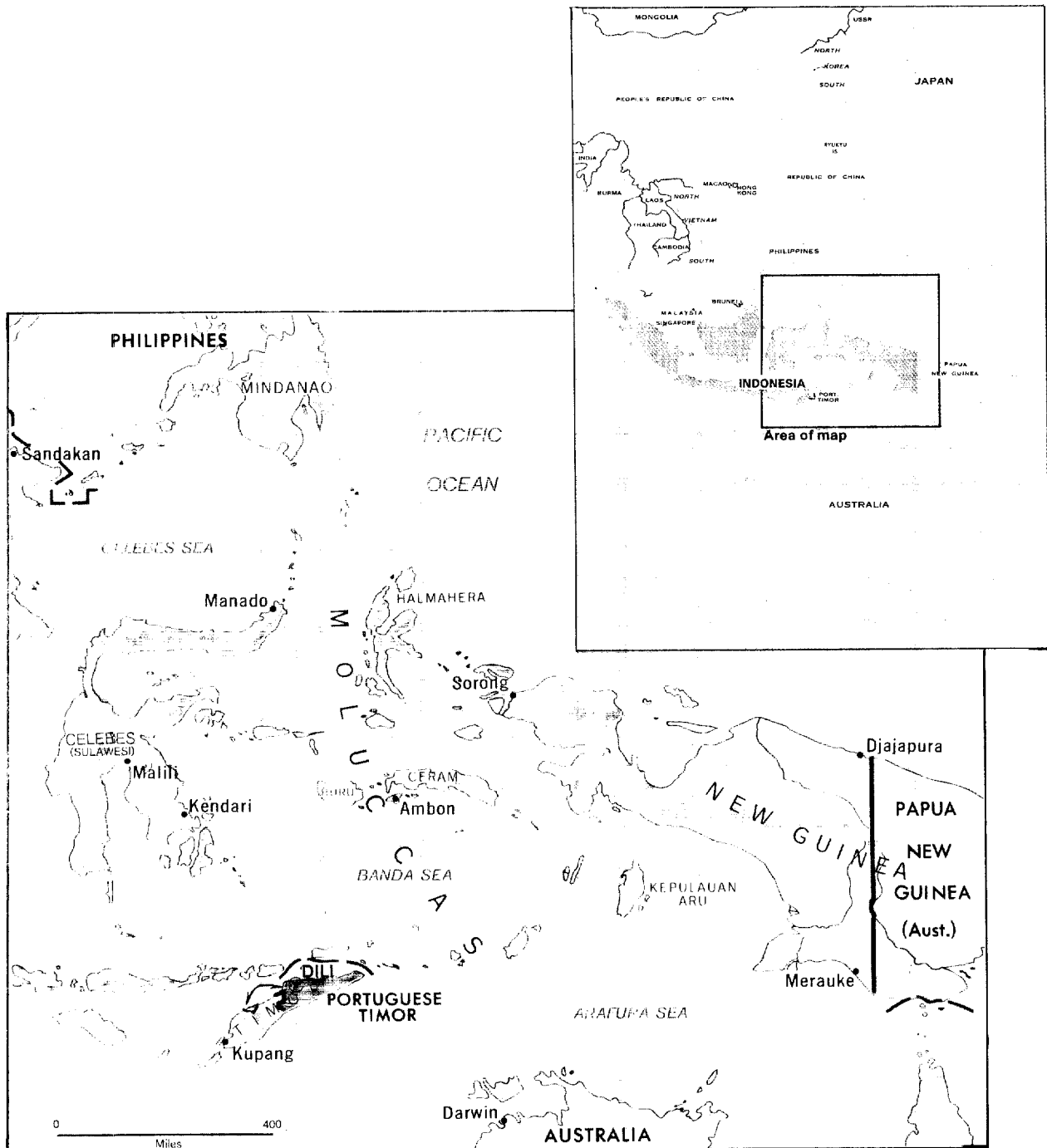
had temporarily halted new plant credits to North Korea.

Rising import payments and lower than expected earnings from metals exports probably are major causes underlying Pyongyang's difficulties in handling payments to Western creditors. The North Koreans' inexperience in Western trade and finance has been compounded by the rising cost of Western machinery and credit over the past two years. Pyongyang probably also overestimated its ability to expand export earnings, which did well until the Western industrial boom turned sour and prices for some of the North's principal export commodities fell.

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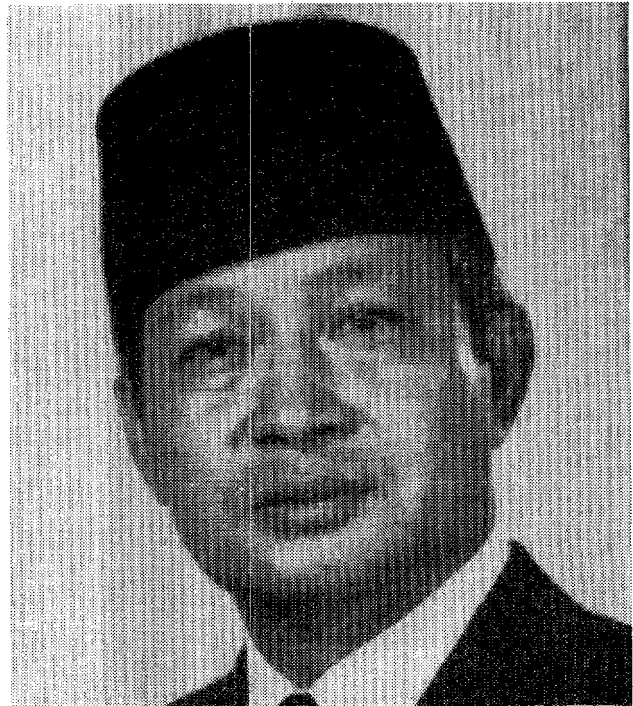
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INDONESIA: THE TIMOR PROBLEM

[44 - 46]

[Lisbon's decision to dismantle its colonial empire has rekindled irredentist feelings in Jakarta toward Portuguese possessions on Timor Island. In addition to an emotional belief that Portuguese Timor rightfully belongs to Indonesia by virtue of geography and history, Jakarta's leaders fear that an independent Timor state would be inherently unstable and thus a threat to Indonesia's national security. Last year, President Suharto assigned his close confidant General Ali Murtopo the task of arranging the peaceful absorption of Timor into Indonesia. Murtopo's assignment was to engineer the victory of pro-Indonesia forces in a plebiscite on the future status of Timor planned by Lisbon for sometime in 1975.



President Suharto

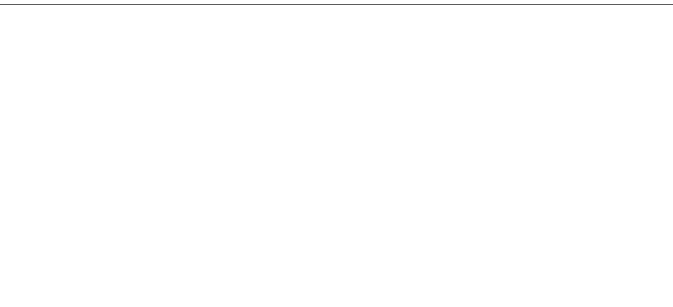
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[redacted] the fortunes of Timorese elements favoring merger with Indonesia have not improved. Indeed, their cause was recently set back when the two largest political groups in Timor announced on January 22 that they were forming a united front to work for independence.

Last week, a delegation of government officials, businessmen, and political party representatives from Timor went to Lisbon to discuss the future of the overseas province. Jakarta has reports that the governor of Portuguese Timor has designated this group as a "constituent assembly," and the Indonesians fear that Lisbon may negotiate with the delegation for the immediate independence of Timor. The pro-Indonesia party boycotted the delegation to avoid being associated with any adverse decision it might reach.

Jakarta is at a disadvantage in dealing with Lisbon. Indonesia has no embassy in Portugal and has only recently reopened diplomatic relations, which were severed in 1964 by Sukarno in protest over Portuguese colonial policies. Jakarta's lack of first-hand information on the situation in Lisbon fuels its concern about recent political developments there. Indonesian leaders believe that the Communists are gaining ever greater influence in the Portuguese government and that this will ultimately spread to Timor as well.



The recent developments in Timor and Lisbon can only strengthen the hand of those among Suharto's advisers who have been advocating a military take-over of the province. In the past, Suharto has fended them off on the grounds that force would be unnecessary and could cause an adverse international reaction. If Lisbon's present discussions with the visiting Timorese delegates result in approval for early independence, however, the pressure on Suharto will intensify, and he may succumb to arguments that national security interests override possible diplomatic problems.

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CHINA: PUTTING IT TOGETHER

{ 47-50 }

[Peking has appointed a new armed forces chief of staff and a head of the political department, thereby filling virtually all top military posts, most of which were vacated immediately after the fall of former defense minister Lin Piao in September 1971. There is still no formally designated head of the logistics department, but an aging military veteran has apparently been filling this slot for over a year.

The two new appointees are civilians, which is unusual, but the move is consistent with the drive to strengthen party control over the military. The movement of civilians into the posts does not in itself assure the downgrading of military political power. Military men, especially in the provinces, have been tenaciously hanging on to their political influence despite strong pressure, in part from Chairman Mao personally, who still appears anxious to press the military to the limit. The risk of a showdown with the military appeared to be more than Premier Chou En-lai was willing to run last summer, and he and his supporters apparently chose to concentrate on completing preparations for the recently concluded National People's Congress. Now that the government house has been put in order, further maneuvering against provincial military commands may occur.

The new chief of staff, Teng Hsiao-ping, is the ranking vice premier and has been filling in for Premier Chou En-lai since he entered the hospital last year. Teng had a distinguished military career during the civil war, but has been a party and government administrator since then. Teng has a well-earned reputation as a disciplinarian.

Chang Chun-chiao, the new head of the General Political Department, rose to the top party post in Shanghai as a result of the Cultural Revolution. He appears to have been working fairly closely with moderate elements in the leadership in the past several years. [redacted]

[redacted] Chang has been the first political commissar of the Nanking Military Region since 1967, but he does not have an extensive military background. He is reported

to have clashed on a number of occasions with powerful professional military figures in the Nanking region.

Both Teng and Chang are members of the Politburo standing committee, and Teng was elevated to the rank of party vice chairman at a party plenum earlier this month. Their unusually high rank lends emphasis to the party's desire to assert control over the military establishment. Furthermore, Teng had been reappointed to the Politburo and named a vice chairman of the party's military commission in conjunction with an earlier move to undercut military political power—the late December 1973 rotation of the military region commanders.

[redacted]

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[redacted] There was almost certainly opposition from the political left to Teng's appointment; he had been purged and heavily criticized during the Cultural Revolution.

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Teng will probably enlarge his role in military policy-making, but it is not yet clear whether he will take a firm hand in day-to-day military affairs. His broad government duties would seem to demand much of his time, unless Premier Chou's health permits him to resume a more active role in government affairs. It is also possible that Teng will rely heavily on his eight deputy chiefs of staff, several of whom possess the necessary experience to fill the job themselves.

Chang Chun-chiao is now one of the handful of leaders who hold top party, government, and army posts. He seems to have been acting as party secretary general, but his new military duties do not conflict with his performance of this important party function. The concentration of power tends to increase central control, but it could create problems over the longer term if the incumbents depart the political stage, thus creating a number of vacancies that may be difficult to fill. [redacted]

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TURKEY REACTS TO US AID CUT

Turkey has said it will review its ties with NATO and is considering retaliatory moves against certain US defense facilities in response to the cutoff of US military assistance that went into effect on February 5. At the same time, the Turks appear to be hardening their line toward Cyprus and may decide to proclaim the part of the island under their control an independent Turkish Cypriot state.

In a press conference in Nicosia on February 5, Turkish Cypriot leader Rauf Denktash said that if Ankara agreed, he was ready to form an independent state in the northern part of the island. He indicated that such a Turkish Cypriot state would exist autonomously until such time as it might be confederated with whatever the Greek Cypriots establish in the southern part of the island.

A Turkish Foreign Ministry official subsequently claimed that Turkey had received no such proposal from Denktash but that Ankara was studying the text of the Turkish Cypriot leader's press statement. Strong indications that the Turks intend to harden their position on Cyprus in response to the US aid halt, coupled with a statement from former prime minister



Turkish Cypriot Leader Denktash
Ready to form an independent state

NY-File

Ecevit that "the legal framework of the Turkish Cypriot state should be established" before talks on a final settlement, suggest Ankara may favor the move.

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[redacted] Turkish forces on Cyprus were placed on alert in "anticipation of announcements to be made on February 5." This suggests that the Turkish commander on Cyprus may have expected a proclamation of independence and was prepared to make some adjustments in the cease-fire lines, possibly to create more secure boundaries or to include some desirable areas in the Turkish sector.

In addition to considering what action to take on Cyprus, the Turkish government is studying various other retaliatory moves against the US for the halt in military assistance. Prime Minister Irmak's initial reaction was to lash out at the US Congress, terming the aid halt a unilateral abandonment of obligations required by a military defense alliance and, therefore, an "unlawful act." He said the action would necessitate changes in Turkey's contribution to NATO, but the main impact would be on the US presence in Turkey.

Various possibilities appear to be under consideration, ranging from charging rent for US use of Turkish facilities to canceling some US base rights.

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[redacted] The press in Ankara is reporting that other measures are under consideration, including a call for an emergency meeting of the NATO defense committee and a ban on US Sixth Fleet calls at Turkish ports.

Most observers expect a rapid rise in anti-Americanism that could bring demonstrations directed against US installations or personnel. So far, however, there has been no great public outcry, although the press has carried several hard-hitting stories and editorials.

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EC: DEVELOPING TIES

[70, 71]

The EC completed negotiations last week on a comprehensive five-year trade-and-aid package with 46 African, Caribbean, and Pacific countries. It was immediately hailed by community officials as a model for the West's future relations with the Third World. Leaders on both sides expect the signing of the agreement in Lome, Togo, on February 28 to mark an important step toward the "equality" of relations between rich and poor nations.

The agreement, to be known as the Lome Convention, provides for free entry to the EC of all industrial products and 96 percent of the agricultural exports of the 46 developing countries. Additional protocols were negotiated on industrial cooperation, financial aid, and—perhaps most significant as a precedent—a program that guarantees developing countries "stable" earnings from key commodity exports.

Led by Senegal and Nigeria, the 46 were remarkably cohesive throughout the negotiations, given the complexity of the economic issues and the political diversity among them—in particular between the French- and English-speaking Africans. This explains, in great part, the "generosity" of the community in the new arrangements.

The agreement replaces the Yaounde Convention, which expired on January 31 and linked the Nine with 19 African states. The Lome agreement establishes new ties between the Nine and 18 commonwealth countries that became eligible for preferential treatment under the terms of Britain's accession to the EC. Also participating in the negotiations were Kenya, Uganda, and Tanzania, which were already linked to the EC by a 1969 accord, and six independent African states, which had had no previous ties to the EC.

The need for a new agreement grew out of the recognition that the addition of three new members to the community in January 1973 would require the renegotiation of the existing

EC association agreements. European industry has also become increasingly aware of its need to secure access to raw materials as well as to expand its overseas markets. EC trade with the African, Caribbean, and Pacific states is already substantial; the community absorbs over 50 percent of their exports, and supplies more than 40 percent of their imports.

The most innovative provision of the new convention is the program designed to protect the developing countries from deteriorating terms of trade by stabilizing their export earnings. Twelve agricultural products and iron ore have been included in this scheme. In addition, over the next five years the EC will provide \$4.1 billion in development assistance. This replaces the Third European Development Fund, which since 1969 has made almost \$1 billion available to the signatories of the Yaounde Convention.

The most difficult negotiations centered on the price the EC will pay for imported sugar. Caribbean sugar producers, hoping to take advantage of still high world sugar prices, initially demanded four times the current EC price and guarantees on future sugar imports. Responding to pressure from UK refiners of cane sugar, the community agreed to guarantee the import of 1.4 million tons of sugar yearly at a price not lower than the EC support price. In separate negotiations, the UK agreed to pay more for its sugar than the community, but this was only about half that demanded by the sugar producers.

Preferences for EC exports in the developing-country markets—opposed by the US—were a highly political issue in the negotiations. In the face of French opposition, the 46 succeeded in eliminating any such reciprocal obligations from the new agreement. It is now up to the developing countries to grant reverse preferences if they wish, but only Senegal, the Ivory Coast, and possibly one or two other states will do so.

Both sides will meet regularly at the ministerial and the ambassadorial level to administer

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the agreement. In addition, they will also establish a consultative assembly composed of members of the European Parliament and representatives appointed by the developing states.

[Redacted]

lend momentum to Arias' new law permitting associations. The law on such associations became effective on January 12, but no significant group has yet applied. Moderate and liberal groups fear that their activities would be restricted by Franco's National Movement, to which the statute assigns supervisory responsibilities. If Fraga makes his move, however, several other prominent politicians may form their own associations.

SPAIN: POLITICAL STIRRINGS

[72 - 75]

Prime Minister Arias must soon make a decision to expedite formation of political associations if they are to provide the means for liberalizing the political system as he intends. Meanwhile, his government's crackdown on strikers has helped diminish labor agitation, although this let-up may be only temporary.

Meanwhile, the government's carrot-and-stick approach to labor problems may have been a factor in reducing the strike wave. The interior minister's declaration three weeks ago that the government will maintain labor peace and prevent labor disputes from disrupting public order has had an inhibiting effect on the workers.

Manuel Fraga Iribarne, an ambitious, reform-minded politician who is now Spain's ambassador to London, is reported to be ready to form a political association. He is holding up any announcement, however, while awaiting a formal response from Prime Minister Arias to his demands for progress on a wide range of political, economic, and social reforms. It is not clear whether chief of state Franco is aware of Fraga's intentions, but Franco in the past has turned a deaf ear to such proposals.

At the same time, the government has been granting a significant number of compulsory arbitration decisions more or less favorable to the workers' demands. The government also unveiled its long-promised bill on labor relations, which will go to the Cortes for debate. Although the bill provides for improvements in working conditions and strengthens the workers' legal rights, it omits any reference to the right to strike or to worker participation in management. These key issues reportedly will be dealt with in future laws.

Fraga sounded out prominent government, military, and other figures during a visit to Madrid last month. He concluded that the government was favorably disposed toward his project and that Arias would provide guarantees assuring freedom of action

[Redacted]

One of the bitterest strikes—at an auto plant in Barcelona—has ended, reportedly because Spanish Communist Party members withdrew. They were the dominant element in the Workers Commission that was promoting the strike. The Communists evidently decided that further strike activity at this time would be too costly. But the key grievance—the workers' charge that the official shop stewards elected four years ago no longer represented their interests—has not been settled. Although strike activity may taper off as more labor contracts are concluded, the failure to settle important grievances makes further flare-ups of labor unrest likely.

Prime Minister Arias would like to see someone of Fraga's stature launch an association to

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Latin America
TRADE ACT DERAILS DIALOGUE

[76-78]

The Latin Americans' continuing reaction against the newly passed US Trade Reform Act demonstrates their commitment to regional solidarity, their rebellion against the traditional world economic "order," and their impatience with US policy and priorities. A recent OAS resolution against the act has mobilized further Latin pressure on this and other issues.

Clashing with the US—a technique favored by the more assertive governments in the area—discomfits some of the Latin countries, such as Chile and the smaller republics, but even these have come to value the force of a united stand. Consensus is difficult to rally among the Latins, however, given their great differences in political outlook and economic conditions. But an issue like the trade act commands easy agreement as a symbol of all that is wrong, in their eyes, with US treatment of the rest of the hemisphere. Specific grievances vary from country to country, but all generally fall under the broad notion that the industrialized world makes a conscious effort to perpetuate a status quo in which the Third World is denied access to power and development. Only two Latin governments are affected by the trade act's provisions against OPEC, yet all are offended by the principle of retaliation, and many view the overall character of the legislation as protectionist.

Even more than a reaction to the trade act itself, the unanimous OAS condemnation on January 23 was an expression of frustration over the non-productiveness of the "dialogue"—the informal sessions with the US secretary of state from which the Latins initially expected rapid and dramatic results. The Argentines, weighing the possibility for a constructive dialogue against the risks of confrontation over the trade act and the Cuba issue, decided—as host—to postpone the next foreign ministers meeting set for March. Most of the governments seem content to relegate inter-American discussion with the US to the OAS; they think it is up to the US, not Latin America, to set the dialogue back on track. The trade act, meanwhile, has been placed on the agendas of several all-Latin forums such as the



OAS meeting in Atlanta, 1974

Andean Pact, the Inter-American Economic and Social Council, and a proposed summit meeting of Latin and Caribbean presidents.

The next scheduled forum in which the Latins will meet en masse with the US is the OAS General Assembly in April. Although the OAS is widely regarded as an ineffectual organization, the next assembly promises to be lively. The agenda will encompass not only continuing issues between the Latins and the US, but the still touchy Cuba problem as well as plans to revitalize the OAS and the election of a new secretary general, whose role many would like to re-define.

Some Latins still see promise for a rekindled "dialogue" in the projected visit to several countries by the US secretary of state. Even Peru, whose relations with the US are under continuing strain and whose President prefers a "dialogue in Spanish" among the Latins without the US and Brazil, has made a point of keeping an invitation open to the secretary.

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SECRET**VENEZUELA: IMAGE BUILDING**

[79-81]

President Carlos Andres Perez' drive for Latin American leadership is gathering momentum, but his relations with the US are under severe strain. The Venezuelans are publicly elated with their recent success in rallying Latin American condemnation of the US Trade Reform Act and the subsequent postponement of the foreign ministers conference, which is interpreted in Caracas as further enhancing Perez' prestige as a hemispheric leader. Local political support has been unanimous in describing the government's efforts as a "diplomatic triumph."

Thus far, there has been little reaction in Venezuela to the two amendments recently introduced in the US Congress that would exempt Venezuela and Ecuador from provisions of the trade act, but a few politicians have claimed that even with the amendments, the act would still apply against other OPEC members and that the move was an obvious attempt to break OPEC unity. In the present atmosphere of suspicion and confrontation, this point could find official favor.

Perez does not intend to back down in the dispute with Washington. Rather, there are indications that he intends to pursue these issues at a number of forums this year. He has already announced he will attend the OPEC summit meeting in Algiers, scheduled for early next month. The meeting is expected to focus on developing coordinated OPEC positions for discussions with oil importers. The gathering will give Perez an opportunity to achieve maximum publicity in seeking OPEC support for his current dispute with the US.

In a related move, Perez has advanced the timetable for a summit meeting of all Latin American chiefs of state to be held in Caracas in March. An agenda has not yet been circulated, but Perez probably intends to have the gathering focus on proposals for reorganizing the OAS, establishing a permanent forum where Latin leaders can meet to discuss common problems, setting a fair market price for Latin raw material exports, and creating a Latin American economic system. At the meeting of Central American presidents last December in Puerto Ordaz in Venezuela, President Perez circulated the first elaboration of the proposal for

a new, exclusively Latin economic organization that was launched by Mexican President Echeverria last summer. The group would have a mandate to promote economic cooperation and development among Latin nations through regional programs and policy coordination. Perez undoubtedly sees it as an umbrella for various



Perez addressing Puerto Ordaz meeting

Venezuela newspaper

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Venezuelan bilateral and multilateral initiatives as well as being a forum for discussions of the Latin American position on economic issues relating to the industrialized countries, particularly the US. But such a new organization, clearly identified with Venezuelan leadership, would also enhance Perez' efforts to establish himself more firmly as a Latin American leader.

Notwithstanding the present controversy with Washington, Perez is intelligent enough not to want to jeopardize the economic interests of his country in a prolonged and venomous dispute with the US. Venezuela will need access to US technology, if not capital, and the US will continue to be the natural market for Venezuelan oil. Nevertheless, several influential Venezuelans have privately expressed concern that relations are drifting toward a confrontation. They characterize Perez as supremely confident and likely to react precipitately to what he sees as slights from the US.

Secure at home and with his international image enhanced, Perez can be expected to devote a large amount of his time in the next few months not only to the OPEC and Latin summit meetings but also to developing closer bilateral contacts with Third World and Latin nations. Several trips to Latin countries are already planned as well as visits to Paris, and possibly other European capitals. Relations with the US will probably continue to be strained until a new relationship has been worked out.

[redacted]

ARGENTINA: LOPEZ REGA CONTROVERSY

[82-85]
An effort probably was made last week, while Argentine President Maria Estela Peron was at an Atlantic beach resort, to clip the wings of her controversial adviser, Lopez Rega. The effort was apparently spearheaded by the military high command, which voiced concern about his activities to the President and appealed for a lessening of his visibility in order to allay fears that he is running the country.

The military leaders probably did not—and will not—press their case very hard because they fear this might cause Mrs. Peron to step down. Such a development could well present the armed forces with political problems that they still prefer to avoid. In any case, government sources are attempting to play down Lopez Rega's influence and are lashing out about "rumor-mongering." Several ministers have denied that there was a struggle over the issue. Meanwhile, there is no evidence that Lopez Rega's power has, in fact, been curtailed.

By his own statement, the President's chief aide has tried to dispel charges against him by denying that he has any political function, stressing that he is on an equal footing with other ministers, and insisting that his relations with the military are good. While he tried to assure the public that he intends to confine himself to his proper duties, the US embassy believes that his interpretation was based more on subterfuge than on fact.

The President will probably ask Interior Minister Rocamora to take a more prominent hand in government affairs in order to move the spotlight from Lopez Rega. She has used this tactic in the past when the sniping at the presidential secretary threatened to undermine confidence in her government. Indeed, an interview with the interior minister published on February 2 seemed to indicate that his standing had been boosted, ostensibly at Lopez Rega's expense. At the same time, Rocamora brushed aside charges that the formation of the new presidential secretariat was an exercise in empire-building. He explained that because Lopez Rega is the President's closest confidant, he is bound to come into conflict with others.

It is very probable that Rocamora was acting at Mrs. Peron's behest to quash damaging rumors implying that a rift exists within the government. The major political actors, however, are not going to be fooled by cosmetic changes. As long as Lopez Rega maintains his hold over the President, he will cause strains among the country's political forces.

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Chilean newspaper

CHILE: STILL TRYING

[86-89]

The military government's continuing effort to improve its international image has picked up some momentum as Santiago mounts strenuous diplomatic efforts to blunt attacks at the Geneva meeting of the UN Human Rights Commission.

Twenty-six detainees, including several leaders of the Radical Party whose freedom had been actively sought by Venezuela, were tabbed for release and deportation to Caracas this week. Another list of 17 who have been processed for exile was disclosed, and the government announced that 70 of the 100 persons on a previous list already have left the country.

The prisoner release program thus far has almost exclusively benefited "detainees"—those arrested under the state of siege but not charged with specific offenses or brought to trial. The government apparently plans to broaden the program to include at least 1,000 persons already convicted and sentenced. Arrangements for the commutation of jail sentences to expulsion may already be in the works and recipient countries are being sought. The government also is trying to speed judicial processes—mainly in military courts—against persons charged and awaiting trial.

There are indications that pressure is building within the government to rein in the free-wheeling Directorate of National Intelligence, a security arm subordinate only to the presidency. Some army generals are convinced that the directorate's penchant for mistreating prisoners is impeding the overall effort to improve the government's record on human rights.

Progress on prisoners and efforts to curb abusive practices notwithstanding, however, the government is far from complacent where internal security is concerned. Dragnet sweeps for common criminals and leftist fugitives were undertaken in Santiago late last month after a half-year hiatus. President Pinochet has promised new interim security legislation this month. It will probably be designed to fill gaps in existing laws until the eventual promulgation of an omnibus legal code.



President Pinochet
The decision will be his

The Human Rights Commission meeting may help bring a modification in the state of siege and a restoration of procedural safeguards suspended since the military take-over almost a year and a half ago. The success of Chilean efforts to avoid a condemnatory resolution at the meeting probably will hinge, however, on Santiago's willingness to accept yet another international fact-finding mission. Previous government policy was one of almost automatic acceptance of such groups, but there have been recent intimations that future fact-finders must also demonstrate access to the Soviet Union and Cuba. The final decision on this sensitive point undoubtedly will be made personally by President Pinochet.

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BRAZIL: HITTING THE COMMUNISTS

A recent crackdown on the Communist Party represents President Geisel's response to military hard liners who have been dissatisfied with what they perceive as his laxness in security matters. At the same time, Geisel may be using the opportunity to centralize his authority over internal security organizations and to warn those who take undue advantage of his modest liberalization efforts.

Justice Minister Falcao, in a televised address, highlighted the recent capture of a number of members of the illegal Brazilian Communist Party and the seizure of printing presses used to produce the party's newspaper. Falcao urged all Brazilians to familiarize themselves with the details of the government's action, which are being published.

Although the Moscow-oriented party has long been docile, the government at times moves to suppress it still further. By playing up its actions against the Communists, the government is going out of its way to praise the security forces. This, in turn, is meant to reassure hard liners that security interests are still receiving high priority. Several leading military conservatives recently have expressed concern that security

[90 - 94]

consciousness has been declining under Geisel. This, they feel, led to the opposition electoral gains last November and could encourage extremists.

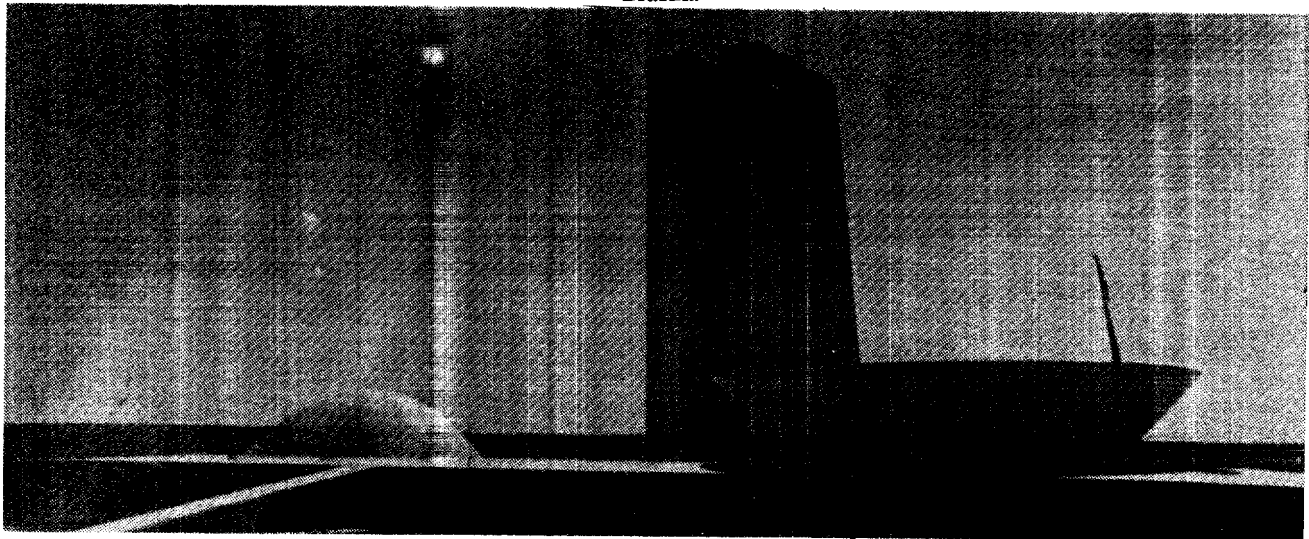
The US embassy reports press speculation that the justice minister's prominent role in announcing the arrests signals the government's intention to centralize the administration of security matters. Until now, such problems have been primarily the domain of the armed services. A desire to centralize control of the many security organizations would be consistent with Geisel's operating style in other areas. Moreover, such a move would enable Brasilia to correct abuses of operational authority by regional commanders now operating with virtual autonomy.

Finally, Falcao's statement that the recent raids turned up information proving the party's "participation" in the elections could be designed as a warning to any congressman-elect contemplating some provocative or controversial action—particularly when congress convenes in March. The same claim might also be used at some future time to buttress the government's case should it opt to remove a politician deemed unacceptable.

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OIL: PAYING THE BILLS

[99 - 101]

Among the major developed countries, only Italy had a substantial problem paying its increased oil bill in 1974. The status of sterling in the international monetary system and London's role as a financial center enabled the UK to finesse the problem. France, partly because of its ties with Arab states, was able to cover its deficit easily. Canada, West Germany, and Japan maintained relatively strong current-account positions, despite the oil price hikes.

Italy, which had payments difficulties before the oil price increase, encountered serious financing problems last year. It was able to borrow only \$2.5 billion from private financial markets, far short of enough to cover its \$8-billion current-account deficit. The balance was financed from official sources, including a \$2-billion, gold-secured loan from West Germany and a \$1.9-billion credit from the EC. The IMF also loaned \$1.7 billion, including \$826 million from its oil credit facility.



Japan was able to meet the \$14-billion increase in its 1974 oil bill without serious difficulty. Tokyo borrowed about \$8 billion in the US and Europe to cover its deficit in the first half of the year. Later, slack domestic demand and favorable price trends for Japanese exports and non-oil imports permitted the non-oil trade balance to be improved by nearly \$13 billion. Tokyo also discouraged investment abroad, causing capital movement out of the country to fall sharply, and began to attract OPEC funds, both

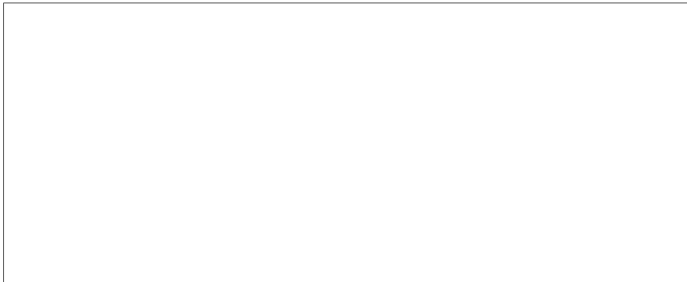
directly and in the form of deposits in Japanese banks abroad.

France encountered little difficulty in meeting its \$9-billion oil bill last year. The costs were partly offset by a \$3.3-billion surplus in non-oil trade and services. Paris also relied heavily on Eurodollar borrowing and bilateral deals with OPEC to fund its current-account deficit of \$5-7 billion. Early in the year, the French treasury floated a \$1.5-billion loan that reportedly brought in \$800 million from external sources, including OPEC states. Later, state agencies borrowed nearly \$2.5 billion in the Eurodollar market, and \$300 million against future exports to Iran.

West Germany and Canada experienced no major financing problems as a result of higher oil prices. Bonn's huge \$34-billion surplus in non-oil trade more than covered its \$10-billion oil bill and a \$14-billion deficit in services. Bonn has, in fact, been preoccupied with preventing capital from entering the country, to reduce upward pressure on the mark. As a net oil exporter, Canada benefited from the rise in prices. Its surplus in the oil trade helped keep the current-account deficit to less than \$2 billion.

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The Year Ahead



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Italy's position is tenuous. Utilization of foreign credits already arranged, borrowing from the new IMF credit facility, and the culmination of one or more of the bilateral deals that are being discussed with OPEC members may prove sufficient to cover Italy's needs. None of the others will be applying for multilateral assistance in 1975.



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